

Message Text

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PAGE 01 TOKYO 03195 120317Z

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ACTION INT-05

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E.O. 11652: N/A

TAGS: EINV JA TQ

SUBJ: JAPANESE INVESTMENT PLANS IN PALAU

REF: A. STATE 052871 B. TOKYO 1492

C. HICOMTERPACIS DTG 270912Z JAN 75 (STATUS LNO 14)

1. EMBOFF CALLED ON INDUSTRIAL BANK OF JAPAN OFFICIAL TO DISCUSS RECENT REPORT CARRIED BY JAPANESE ECONOMIC NEWSPAPER NIHON KEIZAI TO EFFECT THAT INDUSTRIAL BANK AND NISSHO-IWAI TRADING COMPANY HAD DECIDED TO CONSTRUCT 15 MILLION KILOLITER CENTRAL TERMINAL STATION (CTS) ON PALAU ISLAND. OFFICIAL EXPLAINED THAT PRELIMINARY FEASIBILITY STUDY HAD BEEN CONDUCTED BY BECHTEL CORP., BUT THAT MUCH MORE STUDY WOULD BE REQUIRED BEFORE ANY DECISION COULD BE MADE. ONE ADVANTAGE TO JAPAN OF PALAU IS POSSIBILITY OF USING GIANT 500,000 DWT SHIPS BETWEEN MIDDLE EAST PRODUCERS AND PALAU CTS, AND USING MEDIUM SIZED 120,000 DWT TANKERS BETWEEN PALAU AND JAPAN, THEREBY BOTH AVOIDING MALACCA STRAITS AND REDUCING DANGER OF GIANT OIL SPILL IN CONGESTED SEA LANES AROUND JAPAN. COMPLETE LACK OF ECONOMIC INFRASTRUCTURE ON PALAU, HOWEVER, MAY MAKE CONSTRUCTION

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PAGE 02 TOKYO 03195 120317Z

COSTS PROHIBITIVELY HIGH. FIRST STAGE ALONE WOULD CON-

SERVATIVELY COST ABOUT \$700 MILLION.

2. INDUSTRIAL BANK OFFICIAL VOLUNTEERED THAT MAIN PROMOTER OF PALAU CTS PROJECT IS FORMER HUDSON INSTITUTE MEMBER, PANERO, AN AMERICAN WHO IS REPORTEDLY WELL KNOWN IN JAPAN. BANK OFFICIAL SHOWED EMBOFF ARTICLE ON PROPOSED CTS THAT APPEARED IN GUAM NEWSPAPER PACIFIC DAILY NEWS, ON JAN. 27, AND SAID PANERO WAS SOURCE OF STORY.

3. IN RESPONSE TO EMBOFF'S QUESTIONS, BANK OFFICIAL SAID THAT CONTRARY TO PRESS REPORTS, JAPANESE HAVE NOT BEEN IN CONTACT WITH IRANIANS OR ANY OTHER OIL PRODUCER CONCERNING POSSIBLE JOINT VENTURE ON PALAU. HE DID NOT, HOWEVER, RULE OUT POSSIBILITY THAT PANERO HAS CONTACTED IRANIANS. HE ALSO SAID THAT JAPANESE HAVE NOT DISCUSSED PROJECT WITH ANY MAJOR OIL COMPANY AND HAD NO PLANS TO DO SO.

4. COMMENT: JAPANESE HAVE SHOWN CONSIDERABLE INTEREST, EXPECIALLY SINCE OUTBREAK OF OIL CRISIS, IN BUILDING A CTS SOMEWHERE IN SOUTHEAST ASIA BOTH TO BYPASS MALACCA STRAITS AND AS ALTERNATIVE TO NEW FACILITIES IN JAPAN WHERE LAND IS SCARCE AND LOCAL OPPOSITION TO NEW TANK CONSTRUCTION IS INTENSE. IN ADDITION TO ABOVE PROJECT, SUMITOMO SHOJI HAS EXPRESSED INTEREST IN A CTS ON PALAU (REF B), AND LOCATING A CTS IN INDONESIA ALSO REMAINS UNDER ACTIVE CONSIDERATION. IN PROJECTS OF THIS SIZE, HOWEVER, JAPANESE WILL MOVE SLOWLY, CAUTIOUSLY AND ONLY AFTER CAREFULLY WEIGHING ALL THE COSTS AND BENEFITS.
HODGSON

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